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SUBJECT: Birth of Tajik Ag Working Group and Appeal to Donors

[1](#)1. (SBU) Summary: The Tajik government recently convoked the first meeting of a new agricultural working group, at which it made a number of not entirely convincing statements on agricultural reforms, especially in the cotton sector. Donors urged strict requirements on further lending for cotton production. Although a food deficit was not discussed, the Government ended the meeting by passing out an appeal to donors to provide it with financial assistance to address the impact of the global economic downturn and Tajikistan's "food deficit." End Summary.

[1](#)2. (SBU) On December 19, 14 members of the Donor Coordination Council (DCC), including USAID, met with the Tajik government's new Agriculture Working Group formed to ensure better communication and coordination between donors and the government. The group is accountable to Deputy Prime Minister Murodali Alimardon, who is responsible for agriculture, and donor coordination. The Working Group will present Alimardon with reports, recommendations and an agriculture action plan. Presidential Economic Advisor Matlubkhon Davlatov dominated the first 20 minutes of the meeting with a presentation on the economic situation, which included GDP growth (7.4% in 2008), lower than expected inflation (12.7%), the negative impact of the global financial crisis, lower demand for cotton and aluminum, falling remittances, the impact of energy problems on the production of agricultural inputs (what energy there is will be needed for heating), and the low repayments of \$40m in government cotton loans last summer. (Press reports indicate only 10-20% of the loans have been repaid.) In light of all of this, at the end of the meeting the government handed out an appeal to the donors stating, "...the Government of the Republic of Tajikistan hereby appeals to the international organizations and country-donors with the request to provide emergency financial support to our country in order to mitigate the consequences of the global financial crisis and avert the escalation of the food deficit in the country." Interestingly, the "food deficit" was not discussed in the meeting.

[1](#)3. (U) After addressing the Working Group's organizational structure and logistics and defining its priority issues -- debt resolution and agricultural sector finance -- the discussion moved to agricultural and economic issues. The government announced that an International Monetary Fund (IMF) mission would arrive February 5 to make recommendations about future IMF assistance to Tajikistan, and a new banking law should be approved in March. Results of the IMF's Staff-Monitored Program (SMP), looking at the health of the Tajik economy and government fiscal policy, would be made public soon. The Government was on track to meet the SMP's measures but the external environment had deteriorated, reinforcing the need for domestic reforms.

[1](#)4. (U) The donors expressed serious concerns about the cotton financing scheme and its risks to the banking system. The IMF reiterated its warning about the current financing scheme, noting that it is the biggest contributor to the banks' liquidity problems,

especially as repayments are very low. The European Bank for Reconstruction and Development (EBRD) said that it was "suicide" to continue financing cotton. The donors recommended that any new financing scheme should be targeted to the agricultural sector in general, not to any specific crop, farm, investor, region, etc. The Finance Ministry concurred. Donors emphasized that banks should employ commercial standards in making loans. The EBRD's Tajik Agricultural Finance Facility (TAFF) program helps banks to make assessments and decisions for lending. Donors also called on the Government to remove unofficial pressure on banks to lend for cotton only and said no new money should be lent until the \$40 million from last year was repaid. The repayment period has been prolonged by three months owing to poor market prices; however, the donors noted that it is unlikely that prices will go up.

15. (U) Donors regard the agricultural sector as a priority and need to see that reforms are moving forward. The group discussed evidence that farmers growing non-cotton crops made profits in 2008, but were highly doubtful that farmers (as opposed to "investors") made a profit on cotton. The DCC is monitoring the Freedom to Farm provision guaranteeing farmers the right to grow the crops of their choice; survey results monitoring implementation will be available in January. Davlatov stated, "I guarantee you that where cotton can be grown, farmers will want to grow it" and that "we are not going to force farmers to grow cotton next year." Alimardon said the Government was serious about improving the profits for farmers and that "cotton had nothing to do with politics." Davlatov clarified that 180 million somoni (\$52 million) in 2009 budget funds for agricultural loans were intended for the entire sector, not just cotton. The government would set up monitoring mechanisms to track lending.

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16. (SBU) Comment: It was noteworthy that Davlatov, not Alimardon, ran the meeting. The USAID officer witnessed blatant eye-rolling and head shaking by Alimardon while Davlatov spoke. Most of the donors were skeptical about the government's assurances that it would not force farmers to grow cotton and that agricultural loans this year would not be used exclusively for cotton. As for the financial crisis appeal, most donors have been intensely concerned with responding to Tajikistan's food and energy deficit. The Government appears to see the financial crisis as a pretext for seeking more cash. Despite basing the appeal partly on food deficits, the Government did not discuss this deficit or how it related to agriculture policy reform -- a vivid illustration of the frequent refusal of the Tajik government to recognize cause and effect.
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